

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name SUNRISE EDUCATION CENTER	County IOSCO
Audit Date 6/30/05	Opinion Date 11/8/05	Date Accountant Report Submitted to State: 11/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.			
Street Address 4855 STATE STREET		City SAGINAW	State MI
Accountant Signature <i>Debbie A Thomas</i>		ZIP 48603	Date 11/22/05

SUNRISE EDUCATION CENTER
Tawas City, Michigan

FINANCIAL STATEMENTS
June 30, 2005

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**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

November 8, 2005

To the Board of Directors
Sunrise Education Center

We have audited the accompanying financial statements of the governmental activities of Sunrise Education Center, as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sunrise Education Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Sunrise Education Center as of June 30, 2005, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Sunrise Education Center
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2005, on our consideration of Sunrise Education Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provenzano, Schauman & Thomas, P.C.

Certified Public Accountants

SUNRISE EDUCATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

This section of the annual financial report presents management's discussion and analysis of Sunrise Education Center's financial results for the fiscal year ended June 30, 2005 and 2004. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

Overview of the Financial Statements

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy.

The first two statements are Academy-Wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.

The remaining statements are Government Fund Financial Statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.. Most of the Academy's basic services, such as instruction and support services, are included in Governmental Funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the Governmental Funds Statement that explains the relationship (or differences) between them.

Also included in this report are Fiduciary Fund Statements. The Academy is the fiduciary for assets that belong to others, such as the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year.

SUNRISE EDUCATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Figure A-1 Major Features of the Academy-wide and Fund Financial Statements

Figure A-1 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

	Academy-wide statements	Fund Financial Statements
		Governmental funds
Scope	Entire Academy	All activities of the Academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-Wide Statements

The two Academy-Wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school building, and the Academy's ability to be competitive with other public school academies and area school districts.

The following table summarizes the Academy's net assets as of June 30, 2005 and 2004.

SUNRISE EDUCATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Academy-Wide Statements (Continued)

	2005	2004
Assets		
Current and other assets	\$ 100,721	\$ 152,227
Capital assets - Net of accumulated depreciation	801,525	760,118
Total Assets	<u>902,246</u>	<u>912,345</u>
Liabilities		
Current liabilities	112,704	72,275
Noncurrent liabilities	782,954	799,369
Total Liabilities	<u>895,658</u>	<u>871,644</u>
Net assets		
Invested in capital assets - Net of related debt	(3,458)	(66,174)
Unrestricted	10,046	106,875
Total Net Assets	<u>\$ 6,588</u>	<u>\$ 40,701</u>

Net assets - the Academy's combined net assets were \$6,588 on June 30, 2005.

	2005	2004
Revenue		
Program revenue		
Grants and categoricals	\$ 61,920	\$ 66,032
General revenue		
State foundation allowance	453,925	303,471
Other	10,952	300
Total Revenue	<u>526,797</u>	<u>369,803</u>
Function/Program expenses		
Instruction	289,689	209,080
Support services	202,339	117,786
Interest on long-term debt	45,956	35,346
Depreciation (unallocated)	22,926	14,107
Total Expenses	<u>560,910</u>	<u>376,319</u>
Increase (decrease) in Net Assets	<u>\$ (34,113)</u>	<u>\$ (6,516)</u>

Net assets decreased due to higher expenditures, specifically in the areas of employee benefits, additional staff, and student support services.

The total revenues increased from the previous year by 42 percent to \$526,797. State aid foundation allowance included in revenue from state sources accounts for most of the Academy's revenue (86 percent).

SUNRISE EDUCATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

General Fund

The General Fund balance decrease by \$ 28,365 for the year ended June 30, 2005. The Academy's reduced financial position is the product of many factors. The primary reason was the actual enrolled students of 67.75 as compared to the budget of 80 students enrolled. Management had to adjust the expenses to bring them into line with the Academy's revenue.

As the Academy completed the year, its Governmental Funds reported a fund balance of \$10,046, a decrease of \$96,829 over last year's ending fund balance of \$106,875. This decrease is mainly due to the completion of the building improvement project and the factors listed above.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the annual operating budget.

Original Verses Final Budget

Changes were made in the second and fourth quarters to account for student enrollment counts and changes in assumptions (e.g. reduction of staffing, technology, interest and utility costs) since the original budget was adopted.

The variance between the original budget for state aide and final budget for state aide was due to an anticipated student count of 80 students. The actual blended count was 67.75.

Expenses under Instruction reflected a \$43,235 variance between the original budget and the final budget. This variance was due to an anticipated higher student enrollment that would have allowed for a full time principal under the original budget. The original budget placed 100% of the principal's salary under administration rather than the split between Instruction and Administration. Additionally, a replacement teacher would have been hired at a lower rate. The final amended budget allocated accordingly; 75% to Basic Program and 25% to Administration.

The expenditures for Added Needs reflected a variance between the original and final budget totaling \$21,598. This variance was due to an anticipated need for a three quarter time special education staff member. The position was filled mid-year and only at a .5 FTE.

Final Budget Verse Actual Results

While the Academy's final budget for the General Fund anticipated expenses would exceed revenues by \$27,805, the actual results for the year showed expenses over revenues of \$28,365.

SUNRISE EDUCATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Final Budget Verse Actual Results (Continued)

The \$8,360 variance between the total revenues for the final amended budget and the actual total revenues can be attributed to a \$9,399 increase in local revenues.

The variances shown in actual figures as compared to the budget for Basic Program and Added needs are due to the allocation of salary expense under Added Needs that was included under Basic Needs in the amended budget.

Capital Assets

By the end of the year ended June 30, 2005, the Academy had invested \$760,118 in capital assets. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$22,926. The Academy's capital assets are as follows:

	2005	2004
Land	\$ 55,000	\$ 55,000
Buildings	495,000	495,000
Building improvements	223,001	287,334
Equipment and furniture	6,121	6,121
Total Capital Assets	779,122	843,455
Less accumulated depreciation	(19,004)	(41,930)
Net Capital assets	<u>\$ 760,118</u>	<u>\$ 801,525</u>

Long-term Debt Activity

At the year-end, the Academy had a outstanding long-term debt obligation for the building mortgage in the amount of \$804,983, which, is a decrease of \$21,309 from last year. (More detailed information about the Academy's long-term liabilities is presented in Note 6 of the financial statements.)

Factors Bearing on the Academy's Future

The Academy was aware of one existing circumstances that could significantly affect its financial health in the future. The 2005-2006 foundation allowance (state aid funding) from the State of Michigan has increased by \$175 per student. The foundation allowance represents 86 percent of the total Academy revenue.

Contacting the Academy's Financial Management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at Choice Schools Associates, P.O. Box 141493, Grand Rapids, MI 49514.

SUNRISE EDUCATION CENTER
ACADEMY-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets	
Cash	\$ 6,928
Due from other governmental units	85,674
Due from management company	8,119
Capital assets less accumulated depreciation	<u>801,525</u>
Total Assets	<u>902,246</u>
Liabilities	
Current liabilities	
Accounts payable	13,328
Accrued liabilities	23,711
Due to management company	29,066
Deferred revenue	4,200
Mortgage payable due within one year	22,029
Note payable	20,370
Non current liabilities	
Mortgage payable due in more than one year	<u>782,954</u>
Total Liabilities	<u>895,658</u>
Net Assets	
Invested in capital assets net of related debt	(3,458)
Unrestricted	<u>10,046</u>
Total Net Assets	<u>\$ 6,588</u>

The accompanying notes are an integral part of these financial statements.

SUNRISE EDUCATION CENTER
ACADEMY-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 289,689	\$ -	\$ 61,920	\$ (227,769)
Support services	202,339	-	-	(202,339)
Interest on long-term debt	45,956	-	-	(45,956)
Depreciation (unallocated)	22,926	-	-	(22,926)
Totals	<u>\$ 560,910</u>	<u>\$ -</u>	<u>\$ 61,920</u>	<u>(498,990)</u>
General revenues:				
State aid - unrestricted				453,925
Other				10,952
Total General Revenues				<u>464,877</u>
Change in Net Assets				(34,113)
Net Assets - Beginning of Year				<u>40,701</u>
Net Assets - End of Year				<u>\$ 6,588</u>

The accompanying notes are an integral part of these financial statements.

SUNRISE EDUCATION CENTER
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2005

	General Fund	Debt Service	Capital Projects	Totals
<u>Assets</u>				
Cash	\$ 6,928	\$ -	\$ -	\$ 6,928
Due from other governmental units	85,674	-	-	85,674
Due from management company	8,119	-	-	8,119
Total Assets	<u>\$ 100,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,721</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 13,328	\$ -	\$ -	\$ 13,328
Accrued liabilities	23,711	-	-	23,711
Due to management company	29,066	-	-	29,066
Note payable	20,370	-	-	20,370
Deferred revenue	4,200	-	-	4,200
Total Liabilities	<u>90,675</u>	<u>-</u>	<u>-</u>	<u>90,675</u>
<u>Fund Balance</u>				
Unreserved and undesignated	10,046	-	-	10,046
Total Fund Balance	<u>10,046</u>	<u>-</u>	<u>-</u>	<u>10,046</u>
Total Liabilities and Fund Balance	<u>\$ 100,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,721</u>

The accompanying notes are an integral part of these financial statements.

SUNRISE EDUCATION CENTER
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO
ACADEMY-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total Fund Balances - Governmental Funds \$ 10,046

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is 843,455
Accumulated depreciation is (41,930)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Mortgage payable (804,983)

Total Net Assets - Governmental Activities (Academy Wide) \$ 6,588

The accompanying notes are an integral part of these financial statements.

SUNRISE EDUCATION CENTER
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

Revenue	General	Debt Service	Capital Projects	Totals
Local	\$ 14,399	\$ -	\$ -	\$ 14,399
State	471,705	-	-	471,705
Federal	40,693	-	-	40,693
Total Revenue	<u>526,797</u>	<u>-</u>	<u>-</u>	<u>526,797</u>
Expenditures				
Instruction				
Basic programs	218,386	-	-	218,386
Added needs	71,303	-	-	71,303
Supporting services				
Pupil	6,036	-	-	6,036
Instructional staff	5,704	-	-	5,704
General administration	75,987	-	-	75,987
School administration	33,169	-	-	33,169
Business	4,305	-	-	4,305
Operations and maintenance	41,033	-	-	41,033
Transportation	25,598	-	-	25,598
Central	10,507	-	-	10,507
Other	-	-	64,333	64,333
Debt service	-	67,265	-	67,265
Total Expenditures	<u>492,028</u>	<u>67,265</u>	<u>64,333</u>	<u>623,626</u>
Excess (Deficit) of Revenues over Expenditures	34,769	(67,265)	(64,333)	(96,829)
Other Financing Sources (Uses)				
Sources	4,131	67,265	-	71,396
Uses	(67,265)	-	(4,131)	(71,396)
Total Other Financing Sources (Uses)	<u>(63,134)</u>	<u>67,265</u>	<u>(4,131)</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other (Uses)	(28,365)	-	(68,464)	(96,829)
Fund Balance, Beginning	38,411	-	68,464	106,875
Fund Balance, Ending	<u>\$ 10,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,046</u>

The accompanying notes are an integral part of these financial statements.

SUNRISE EDUCATION CENTER
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
 TO THE ACADEMY-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Governmental Funds	\$ (96,829)
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Amounts reported for governmental activities in the statement
 of activities are different because:

Governmental funds report capital outlay as expenditures;
 in the statement of activities, these costs are capitalized
 and depreciated over their estimated useful lives.

Capital Outlay	64,333
Depreciation expense	(22,926)

The issuance of long-term debt (note) provides current financial
 resources to governmental funds, while the repayment of the
 principal of long-term debt consumes the current financial resources
 of governmental funds. Neither transaction has any effect on net assets

Repayment of mortgage principal	<u>21,309</u>
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Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ (34,113)</u>
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The accompanying notes are an integral part of these financial statements.

SUNRISE EDUCATION CENTER
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

Agency Funds

Assets

Cash, student and parent organizations	\$ 1,294
Total Assets	<u>\$ 1,294</u>

Liabilities

Due to student and parent organizations	\$ 1,294
Total Liabilities	<u>\$ 1,294</u>

The accompanying notes are an integral part of these financial statements.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

Sunrise Education Center was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1996, the Academy entered into a contract with Saginaw Valley State University to charter a public school academy. The contract is currently in effect until June 30, 2006. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Saginaw Valley State University Board of Trustees for the year ended June 30, 2005, approximated \$13,618.

A. Reporting Entity

The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies relating to GAAP and used by the Academy are discussed below.

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

The Academy-Wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared; therefore, a reconciliation is included to identify the relationship between the Academy-Wide statements and the statements for the governmental funds.

B. Academy-Wide Statements

The Academy-Wide statement of activities presents a comparison between program expenses and program revenues; revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy. The Academy-Wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on long-term debt.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others; therefore these funds are not available to support Academy programs.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

The emphasis in fund financial statements is on the major funds. All of the Academy's funds were determined to be major funds. The Academy's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the Academy-Wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible in the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due.

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Due From Other Governmental Units

Due from other governmental units consist of all revenues earned at year-end but not yet received.

Due From Management Company

Due from Management Company is comprised of overpaid management fees and payroll.

Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Building	50 years
Building improvements	20 years
Equipment and furniture	5-20 years

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Liabilities

Accrued liabilities consist of the amount due at year end to the Academy's oversight agency for fees and of amounts due on contacted services.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Due to Management Company

Due to Management Company consists of amounts due on contracted employees for payroll, the related taxes and benefits.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received, but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

Long-Term Liabilities

In the Academy Wide financial statements, long-term debt is reported as a liability in the statement of net assets. In the fund financial statements, governmental fund types recognize both interest and principal payments as expenditures during the period the payments were made.

Inter-fund Activity

Inter-fund activity is reported as transfers and is eliminated upon consolidation.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2005. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Academy's management company submits to the Board of Directors a proposed budget before July 1st each year. The budget includes proposed expenditures and the means to finance them.
2. The management company is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any function must be approved by the Board of Directors.
3. The budget is adopted on a basis consistent with generally accepted accounting principles.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability (continued)

4. Budgeted amounts shown in the financial statements reflect amendments approved by the Board of Directors through June 30, 2005.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors. State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

The Academy's expenditure budget variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its fund in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$6,928 and the bank balance was \$19,468. Of the bank balance, \$19,468 was covered by federal depository insurance.

The Academy does not hold any investments at year end. The Board adopted an investment policy after the year ended June 30, 2005.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets not subject to depreciation				
Land	\$ 55,000	\$ -	\$ -	\$ 55,000
Subtotal	55,000	-	-	55,000
Capital assets subject to depreciation				
Buildings	495,000	-	-	495,000
Building improvements	223,001	64,333	-	287,334
Furniture & Equipment	6,121	-	-	6,121
Subtotal	724,122	64,333	-	788,455
Total Capital Assets	779,122	64,333	-	843,455
Accumulated depreciation				
Buildings	3,592	9,900	-	13,492
Building improvements	9,291	13,026	-	22,317
Furniture & Equipment	6,121	-	-	6,121
Total Accumulated Depreciation	19,004	22,926	-	41,930
Total Net Capital Assets	\$ 760,118	\$ 41,407	\$ -	\$ 801,525

Depreciation expense was not charged to activity as the Academy consider its capital assets to impact multiple activities and allocation is not practical.

NOTE 5--Inter-fund - Transfers

The makeup of inter-fund balances and transfers is as follows:

Outgoing Transfer		Incoming Transfer	
General Fund	\$ 67,265	Debt Service	\$ 67,265
Capital Projects	4,131	General	4,131
Total	<u>\$ 71,396</u>	Total	<u>\$ 71,396</u>

NOTE 6--Long-Term Debt

A summary of long-term debt transactions follows:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
Governmental Activities					
Mortgage payable	\$ 826,292	\$ -	\$ 21,309	\$ 804,983	\$ 22,029
Totals	<u>\$ 826,292</u>	<u>\$ -</u>	<u>\$ 21,309</u>	<u>\$ 804,983</u>	<u>\$ 22,029</u>

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6--Long-Term Debt (continued)

Annual debt service requirements to maturity for the above mortgage is as follows:

For Year(s) Ended June 30,	Principal	Interest	Total
2005-06	\$ 22,029	\$ 45,235	\$ 67,264
2006-07	23,316	43,948	67,264
2007-08	24,678	42,586	67,264
2008-09	26,119	41,145	67,264
2009-2010	27,645	39,620	67,265
2010-11 thru 2014-15	164,414	171,907	336,321
2015-16 thru 2018-19	218,374	117,945	336,319
2019-20 thru 2022-23	298,408	38,970	337,378
Totals	<u>\$ 804,983</u>	<u>\$ 541,356</u>	<u>\$ 1,346,339</u>

Governmental Activities

General obligation debt
consist of the following:

Commercial mortgage due in
monthly installments of \$5,605
through August 2023; interest
currently 5.69% adjusted annually

\$ 804,983

For the year ended June 30, 2005, the total interest paid on the mortgage was \$45,955.

NOTE 7--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 8--Related Party Transactions

The Academy has entered into a management agreement with Choice Schools Associates (CSA), a for-profit corporation, effective May 7, 2003 that will cover the five academic years commencing July 1, 2003 and ending June 30, 2008. The management company provides the Academy with all personnel, as well as all Academy management, operation, administration, and education services. The Academy subcontracts all employees from CSA and reimburses CSA for employee and operating costs.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Related Party Transactions (continued)

The Academy pays management fees in the amount of 11% of amounts the Academy receives directly or indirectly under Paragraph A of the management agreement, less amounts retained by the oversight agency and the amounts of all grants received by the Academy under Paragraph B of the management agreement that were initiated and administered by CSA and which are to be expended during that school year. Fees paid and expensed for the year ended June 30, 2005, amounted to \$55,669.

Salaries, payroll taxes, and related benefits expenses charged to the Academy by CSA amounted to \$ 287,632 for the year ended June 30, 2005.

At June 30, 2005, the Academy owed CSA \$29,066 for employee salaries, benefits, and reimbursable expense. CSA owed the Academy \$8,119 for overpaid salaries and management fees.

NOTE 9--Lease

The Academy leases its copier. The lease requires a monthly payment of \$252. In addition, the Academy is responsible for all taxes, insurance, and maintenance. The amount expensed for the copier totaled \$3,024, for the year ended June 30, 2005.

Minimum future lease payments on this lease at June 30, 2005 are as follows:

For Year Ended June 30,	Payments
2005	3,026
2006	3,026
2007	3,027
2008	2,270
	<u>\$ 11,349</u>

NOTE 10--Subsequent Event

Subsequent to year-end, the Academy issued a short-term State Aid Anticipation Note totaling \$50,000 that will be repaid during the 2005-06 fiscal year.

SUNRISE EDUCATION CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11--Notes Payable

The Academy had \$20,370 outstanding at June 30, 2005 on a State Aid Anticipation Note due in July of 2005, bearing interest at 3.99%. The following are the changes in short-term debt:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
State Aid anticipation note	-	200,000	179,630	20,370
Totals	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 179,630</u>	<u>\$ 20,370</u>

The proceeds from the State Aid Anticipation Note were used to sustain operations until the Academy received state aid.

REQUIRED SUPPLEMENTAL INFORMATION

Sunrise Education Center
Budgetary Comparison
For the Year Ended June 30, 2005

	General Fund			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenue				
Local	\$ 3,000	\$ 5,000	\$ 14,399	\$ 9,399
State	560,100	472,744	471,705	(1,039)
Federal	40,087	40,693	40,693	-
Incoming transfers and other	-	4,131	4,131	-
Total Revenues	<u>603,187</u>	<u>522,568</u>	<u>530,928</u>	<u>8,360</u>
Expenditures				
Instruction				
Basic programs	204,321	247,556	218,386	29,170
Added needs	54,491	32,893	71,303	(38,410)
Support Services				
Pupil	5,550	6,000	6,036	(36)
Instructional staff	10,800	6,639	5,704	935
General administration	76,980	72,621	75,987	(3,366)
School administration	84,148	33,349	33,169	180
Business	3,000	4,500	4,305	195
Operation and maintenance	30,750	36,950	41,033	(4,083)
Transportation	35,145	30,000	25,598	4,402
Central	4,500	11,000	10,507	493
Community	200	-	-	-
Debt service	-	1,600	-	1,600
Outgoing transfers	67,265	67,265	67,265	-
Total Expenditures	<u>577,150</u>	<u>550,373</u>	<u>559,293</u>	<u>(8,920)</u>
Excess (Deficiency) of Revenues Over Expenditures	26,037	(27,805)	(28,365)	(560)
Fund Balance - Beginning of Year	38,411	38,411	38,411	-
Fund Balance - End of Year	<u>\$ 64,448</u>	<u>\$ 10,606</u>	<u>\$ 10,046</u>	<u>\$ (560)</u>

See independent auditor's report.

ADDITIONAL SUPPLEMENTAL INFORMATION

Sunrise Education Center
Schedules of Outstanding Mortgage Indebtedness
June 30, 2005

2003 Mortgage \$847,000
Interest Rate:5.69%

	Principal	Interest	Total
2005-06	22,029	45,235	67,264
2006-07	23,316	43,948	67,264
2007-08	24,678	42,586	67,264
2008-09	26,119	41,145	67,264
2009-10	27,645	39,620	67,265
2010-11	29,259	38,005	67,264
2011-12	30,968	36,296	67,264
2012-13	32,777	34,487	67,264
2013-14	34,692	32,573	67,265
2014-15	36,718	30,546	67,264
2015-16	38,862	28,402	67,264
2016-17	41,132	26,132	67,264
2017-18	43,534	23,729	67,263
2018-19	46,077	21,187	67,264
2019-20	48,769	18,495	67,264
2020-21	51,617	15,647	67,264
2021-22	54,632	12,632	67,264
2022-23	57,823	9,441	67,264
2023-23	134,336	1,250	135,586
Totals	<u>\$ 804,983</u>	<u>\$ 541,356</u>	<u>\$ 1,346,339</u>



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

November 8, 2005

To the Board of Directors
Sunrise Education Center

We have audited the financial statements of the governmental activities of Sunrise Education Center, as of and for the year ended June 30, 2005, which collectively comprise the Sunrise Education Center's basic financial statements and have issued our report thereon dated November 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sunrise Education Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sunrise Education Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions.

To the Board of Directors
Sunrise Education Center
Page Two

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also note certain additional matters reported to management in a separate letter dated November 8, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sunrise Education Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended and should not be used by anyone other than these specified parties.

Gardner, Hernandez, Schauman & Thomas, P.C.

Certified Public Accountants

SCHEDULE OF REPORTABLE CONDITIONS

2004-1 Condition of Financial Records

- Condition:** As a result of a failure to review and reconcile, where appropriate, the accounting information, the financial records given to the auditor required a significant number of material adjusting journal entries to benefits, payroll taxes and management fees.
- Criteria:** Procedures should be in place to prevent misstatement of accounting information.
- Effect:** Because of the inaccuracy of the financial statements, the Board's ability to make sound decisions could have been impaired.
- Recommendation:** We recommend the Board work with the management company to ensure that the financial records are reconciled on a monthly basis.